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# ECONOMIC AND ENVIRONMENTAL QUESTIONS: REPORTS OF SUBSIDIARY BODIES, CONFERENCES AND RELATED QUESTIONS

## Sustainable development

## Note by the Secretary-General

1. In resolution 48/55, the General Assembly invited the General Agreement on Tariffs and Trade (GATT) and requested the United Nations Conference on Trade and Development (UNCTAD), in accordance with their respective mandates and competencies and in close cooperation with other competent United Nations bodies and the regional commissions, to address trade and environmental matters comprehensively, and to submit, through the Commission on Sustainable Development, a report thereon to the Economic and Social Council at its substantive session of 1994.

2. The Secretary-General has the honour to transmit to the Council the annexed report, submitted by the UNCTAD secretariat.

* E/1994/100.

Annex

# TRADE AND ENVIRONMENT AND UNCED FOLLOW-UP ACTIVITIES IN UNCTAD

Note prepared by the UNCTAD secretariat for the Second Meeting of the Commission on Sustainable Development

16-31 May 1994

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## I. BACKGROUND

1. The General Assembly, through resolution 48/55 of 10 December 1993 on Trade and Development, *inter alia* requested UNCTAD to address comprehensively trade and environmental matters, and to submit, through the Commission on Sustainable Development, a report on this question to the Economic and Social Council at its substantive session of 1994.

2. This note, submitted by the UNCTAD secretariat under its own responsibility, reports on the follow-up activities in UNCTAD on Agenda 21, Chapter 2, and responds to the above mentioned General Assembly resolution.

3. The purpose of this note is not to provide a complete picture of all salient issues in the field of trade and environment. The UNCTAD secretariat submitted a comprehensive report on "Trends in the field of trade and environment in the framework of international cooperation" to the Trade and Development Board at the first part of its fortieth session. The conclusions of the deliberations of the Trade and Development Board which have been reproduced in Annex III, were transmitted to the General Assembly[1] and have been reflected in above mentioned GA resolution.

4. This report rather focuses on specific trade-related aspects of sustainable development, selected from among those topics which have been the subject of analysis and debate in UNCTAD and which, together with other topics, require further attention. Some of these issues are also relevant in the context of Chapter 4 of Agenda 21, on "Changing consumption patterns".

5. This report is organized as follows: Section II recalling some of the principal conclusions of UNCED, reviews the principal achievements in this field since then and identifies the primary constraints to further sustained progress at the international level. Section III then discusses selected issues in the field of trade and environment, the follow up to which, it is suggested should be discussed in the CSD. Annex I provides a detailed description of follow-up actions undertaken in UNCTAD, at both the intergovernmental and secretariat levels. Finally, Annex II briefly describes UNCTAD's cooperation with other international organizations, in particular UNDP and UNEP.

6. It should be noted that in addition to this report, the secretariats of UNCTAD and UNEP will jointly present a report to the second meeting of the CSD, following the request made to them at the high level meeting on trade and environment held in Geneva on 17 February 1994 and reiterated at the meeting of ministers of the environment held in Agra (India) on 24-25 February 1994.

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[1] UNCTAD, "Report of the Trade and Development Board of the first part of its fortieth session" Conclusions 407 (XL) TD/B/40(1)/14 (Vol.1).

## II. TRADE-RELATED MATTERS IN CHAPTER 2 OF AGENDA 21

7. Chapter 2 of Agenda 21 concluded that sustainable development policies at the national level must be supported by a dynamic international economy and an open, equitable, secure, non-discriminatory and predictable multilateral trading system. Among the objectives identified in Agenda 21 to support sustainable development policies in developing countries are improved market access for exports of developing countries; the provision of adequate financial resources; and acceleration of the development and diffusion (especially to developing countries) of "cleaner" technologies. Sustainable development in addition requires the promotion of patterns of consumption and production that reduce environmental stress and meet the basic needs of the poor.

8. Chapter 2 of Agenda 21 on international cooperation to accelerate sustainable development in developing countries and related domestic policies identified two major programme areas relating to linkages between trade and environment: (A) promoting sustainable development through trade; and (B) making trade and environment mutually supportive. This Chapter examines developments in these programme areas.

### A. Promoting sustainable development through trade

9. Access to external markets is a key instrument for the promotion of sustainable development in developing countries and countries in transition. The promotion of sustainable development through trade requires:

- Further trade liberalization;
- The avoidance of negative effects of environmental policies on trade and development, in particular of developing countries, and of the use of environmental measures as a disguised form of protectionism.
- An open, equitable, secure, non-discriminatory and predictable multilateral trading system

10. Agenda 21 identified tariff and non-tariff obstacles to trade as well as low and declining prices for most commodities as being factors which reduce the ability of developing countries to mobilize, through international trade, the resources needed to finance investment required for sustainable development. Improved market access, achieved through trade liberalization, including the reduction of tariffs (and tariff escalation) and non-tariff measures can make a substantial contribution to sustainable development.

11. The completion of the Uruguay Round of multilateral trade negotiations is an important achievement in this respect, but still leaves many areas of interest to developing countries in an unsatisfactory state. It remains true as stated in the Report of the World Commission on Environment and Development, that "if developing countries are to reconcile a need for rapid export growth with a need to conserve the resource base, it is imperative that they enjoy access to industrial country markets for non-traditional exports where they enjoy a comparative advantage".[2]

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[2] The World Commission on Environment and Development, Our Common Future.,p.83.

12. It is thus important to identify areas where further trade liberalization, including through reducing or eliminating tariff escalation, could contribute to sustainable development.[3]

13. Attention should also focus on the removal of trade restrictions which have negative environmental effects and on positive measures such as the promotion of trading opportunities for "environmentally friendly" products. Apart from further trade liberalization, efforts should also focus on preventing detrimental effects of environmental policies and measures on the economic growth of developing countries.

14. At times, the avoidance of adverse effects on trading partners requires greater coherence between policies and measures implemented by individual countries, e.g. in the areas of recycling and packaging. Greater coherence is needed to avoid unintended effects, such as disruptions in external markets, or the inducement of adjustments (for example in processes or in the use of materials) for reasons of export competitiveness, when these are both unnecessary for the protection of the environment of the importing country, and of little use or inappropriate in the context of the environmental and developmental conditions of the producing countries.

15. The promotion of sustainable development through trade further requires an multilateral trading system which, while being responsive to environmental objectives, is capable of preventing unnecessary adverse impacts of environmentally related policies and measures on trade and on development. High priority should be given to the avoidance of protectionist trade measures and the adherence to effective multilateral discipline, including Principle 12 of the Rio Declaration.

**B. Making trade and environment mutually supportive**

16. Agenda 21 pointed out that "the interactions between environmental policies and trade issues are manifold and have not yet been fully assessed" and called upon national governments and relevant international institutions to "make trade and environment mutually supportive in favour of sustainable development" and to "develop a environment/trade and development agenda".

17. International institutions, in particular GATT, UNCTAD and UNEP, are implementing comprehensive work programmes on trade and environment, in accordance with their respective mandates and areas of competence. The OECD has developed procedural guidelines on integrating

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[3] Trade liberalization alone will not be sufficient to achieve sustainable development. When significant policy or market failures exist, increased production for exports may even increase the pressure on the environment, for example when natural resources are significantly underpriced. This is not an argument against trade liberalization, but points to the need to evaluate the environmental effects of changes in production and trade following trade liberalization and to make the necessary policy adjustments to avoid negative environmental effects. Trade liberalization will contribute to sustainable development if sound environmental policies are implemented or when trade liberalization is accompanied by government policies in related areas which adjust economic incentives to environmental objectives.

trade and environmental policies and is currently undertaking analysis aimed at designing substantive guidelines. National governments and NGOs are also undertaking efforts to clarify trade and environment linkages.

18. The analysis and debate undertaken so far has resulted in increased awareness of the importance of the linkages between trade and environment in both developed and developing countries. It is now recognized that economic and trade policies must better integrate environmental factors and that environmental policy must be sensitive to the needs of the multilateral trading system. The process of consensus building on basic principles and policy guidelines to achieve such integration has begun. However, more empirical work is needed to better understand the interlinkages and to develop further policy conclusions therefrom.

19. The effective integration of trade and environmental policies, however, must be based on the principles of sustainable development, which is the ultimate objective. It is thus imperative to pay full attention to the needs of the world's poor and to the special conditions and development needs of the developing countries.

20. Issues related to the linkages between trade and environment thus need to be put into the broader context of coordinated and coherent policies for sustainable development. Strengthened international cooperation is needed to support sustainable development policies at the national level through positive measures. Such measures should be aimed at accelerating development, maintaining an open trading system, improving market access, providing adequate financial resources, and building institutional capacity to integrate trade and environment policies in the framework of national policies for sustainable development. Specific measures include transfers of technology, technical assistance and the expansion of market opportunities for "green" products.

21. By and large such measures have not yet been forthcoming. The CSD may wish to ensure that trade and environment linkages are dealt with in the context of broader efforts to increase the mutual supportiveness of trade and environment policies in the pursuit of sustainable development, and that such efforts receive the fullest possible international support through measures such as those outlined above. In addition, in relation to its overall coordinating functions, the CSD may wish to ensure complementarity between the work of different organizations of the UN system, in particular by placing the development context clearly at the centre of the trade and environment debate.

22. While Chapter 2 of Agenda 21 has identified the major issues, the debate on trade and environment also focuses on specific aspects of these broader interlinkages. Some of these issues are analysed in the next Chapter.

## III. SALIENT ISSUES IN THE TRADE AND ENVIRONMENT DEBATE

23. UNCTAD has initiated a comprehensive programme of work on trade and environment, at both the intergovernmental and secretariat levels, which is described in detail in Annex I. Intergovernmental committees and working groups in UNCTAD have already made major contributions in the area of trade, environment and development by identifying relevant policy issues and by advancing the process of consensus building.

24. Analysis and debate in UNCTAD has focused on ways and means to strengthen international cooperation aimed at greater coherence between environmental measures and policies implemented by individual countries and to prevent environmental policies from adversely affecting the economic growth and development prospects of developing countries. Special attention is given to positive measures to increase the mutual supportiveness of trade and environment policies in the pursuit of sustainable development, to support the efforts of developing countries to achieve internationally agreed objectives and to resolve their specific environmental problems. Thus the main objective of UNCTAD's work on trade and environment has been to bring to the fore the special needs and conditions of developing countries, adding the much needed developmental dimension to these interlinkages.

25. Specific themes which have so far been selected for consideration at the intergovernmental level include developments in the field of trade and environment in the framework of international cooperation; the impact of environment-related policies standards and regulations on market access and export competitiveness; environmental factors and the expansion of trading opportunities of developing countries; and the effects of the internalization of external costs on sustainable development.

26. A broad convergence of views on a number of elements has emerged from intergovernmental deliberations which have taken place so far and the Trade and Development Board has identified certain specific elements which are of particular relevance for further work of UNCTAD.

27. This section outlines some prominent issues of the trade and environment debate. It also gives an overview of relevant initiatives and it makes some proposals for future work. The selected issues are highly relevant for developing countries.

### A. Environmental standards, market access and competitiveness

28. Analysis and debate on environmental standards in the trade context has focused on the possible impact of standards and regulations on market access and competitiveness.[4] A closely related question is whether there are advantages, from the trade and environmental points of view, in harmonizing standards.

29. The impact of environmental standards on market access is of particular concern to

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[4] The UNCTAD secretariat is preparing a report on the impact of environmentally related policies on market access and export competitiveness, which will be discussed at the first part of the 41st session of the TDB in September 1994.

developing countries. Developing countries fear that their exports may be denied market access or that high adjustment costs may be incurred in order to comply with product regulations which are designed to address environmental problems in the industrialized countries. Sometimes environmental regulations are felt to be "excessive" and to have the effect of Non-Tariff Barriers to trade (NTBs). Traditionally attention has focused on the product standards issue.

30. The impacts of environmental regulations on market access conditions have not yet been fully assessed. Lack of timely and precise information about environmental standards and regulations in external markets has created certain problems for exporters, but by and large there is no strong empirical evidence that environmental regulations in the OECD countries have created major trade distortions.

31. However, impacts of environmental policies on developing countries may become more significant Developing country exporters may have difficulties -technologically- to meet stricter environmental standards and to remain competitive in the light of environmental demands arising from external markets. This point is further elaborated in section B in the context of newly emerging product policies.

32. UNCTAD is undertaking a number of studies in on the possible impact of environmental policies, standards and regulations on market access and competitiveness of developing countries and countries in transition. Future work in UNCTAD will concentrate on initiatives which will minimise their adverse impact, if any, on the exports from developing countries as well as to promote the expansion of trading opportunities of developing countries.

**Environmentally related process standards and regulations**

33. There has been a surge of interest in process standards.[5] While standards and regulations on the use of Process and Production Methods (known as PPMs) are an essential part of environmental policy, it is not obvious that PPM based standards should become an important trade issue. Firstly, to the extent that environmental problems are intrinsically local, the environment of the importing country is not affected; there would thus be no environmental justification to require that imported products comply with the PPM standards of the importing country. Secondly, international trade rules do not restrain a country's right to set its PPM standards at a level which is consistent with its own priorities.

34. In the trade context, the interest in PPM standards which address only intrinsically local environmental problems is linked to the question of competitiveness. In order to analyze the impacts of environmental standards on competitiveness, the following factors could be considered:

(a) The costs of compliance with domestic environmental regulations;

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[5] Vossenaar R and V. Jha, Environmentally based process and production method standards: some implications for developing countries. Paper prepared for the OECD workshop on "Trade and Environment: PPM's Issues", Helsinki, Finland, 6-7 April, 1994.

(b) Environmentally-related demands arising in export markets;
(c) Trade in Environmental Goods and Services (EGS);
(d) Government assistance in compliance with environmental standards;

35. With regard to (a) - the costs of compliance with domestic environmental regulations, more stringent process standards and regulations may produce long-term economic benefits by protecting human health and the productivity of environmental resources. However, since the costs of compliance are borne by individual firms, increased costs of production may adversely affect competitiveness at the sectoral or enterprise level. Thus questions regarding "implicit" subsidies "eco-dumping", and "environmental" countervailing duties may arise.[6] Theoretical and empirical work indicate that the case for trade measures to offset differences in compliance costs is indeed very weak.[7] Empirical studies referring to industrialized countries indicate that the cost effects of environmental process standards are, on average, relatively small. Even where capital costs may be relatively high, technological developments, such as the shift from pollution control, based on an end-of-pipe approach like retrofitting, to pollution prevention through "clean technologies" may result in savings in operation costs, compensating at least part of the costs of compliance. And there is no strong empirical evidence of migration of industries in response to differences in environmental standards across countries or of "strategic behaviour".[8] Thirdly, since pressures for PPM-related

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[6] A situation where a country deliberately sets its standards at an artificially low level or does not enforce its standards in order to gain a competitive trade advantage or to attract investment, is sometimes referred to as "eco-dumping". Duties which would be levied on imported products to offset the differences in environmental costs of production in case of "eco-dumping" are sometimes referred to as "environmental" countervailing duties. Such duties are not allowed under GATT rules and have never been applied.

[7] Repetto has observed that "Issues on the international "competitive" effects of environmental standards are vastly exaggerated and should not be high priority for future deliberations on trade and environment policy. Competitive effects should be valued at the national level, and there is not a shred of evidence that national competitiveness is negatively associated with the stringency of environmental standards. This implies that several contentious policy issues can safely be relegated to the scrap heap". With regard to the use of countervailing duties to deter "eco-dumping" Repetto observes that "The problems and abuses that these kinds of trade policies would invite far exceed the problem of competitive displacement they are aimed at". Robert Repetto, "High (and low) priority trade and environment issues facing the WTO". Paper delivered to the EU/US Roundtable on Environment and Trade, the Hague, January 27, 1994.

[8] "Strategic policies" aimed at obtaining short term economic benefits by deliberately setting standards at an artificial low level (or by not enforcing standards) are unlikely to be practised on a rational basis. Upgrading standards is often

trade restrictions are based on competitiveness concerns rather than on the environmental impacts in the importing countries, the risk of protectionist abuse is particularly high. Environmental countervailing duties may contribute to trade friction and adversely affect the multilateral trading system. In addition, friction over "hidden" environmental subsidies and "eco-dumping" would in particular target the competitive developing countries.

36. It thus follows that the debate on PPM-standards and competitiveness based on the issue of compliance costs with domestic environmental regulations, may unduly expose developing countries to pressures to adopt, for reasons of export competitiveness, standards chosen by the importing country: developing countries would be forced to devote more resources on certain environmental improvements than they might choose on the basis of their own environmental and developmental conditions and priorities.

37. In this context, it is worth recalling that one of the propositions made in Agenda 21 is to "Seek to avoid the use of trade restrictions or distortions as a means to offset differences in costs arising from differences in environmental standards and regulations, since their application could lead to trade distortions and increase protectionist tendencies".[9]

38. Attention could focus on the other linkages between environmental standards and competitiveness as outlined above. With regard to (b), it is clear that at times producers incur costs for environmental improvements not as a result of domestic environmental regulations, but as a result of demands arising in export markets. To the extent that demands from external markets are PPM-related, compliance is not mandatory, i.e. market access can not be formally denied to imported products. However, such pressures may affect export competitiveness and at times constitute a de facto obstacle to trade. Thus, both product and process-related environmental "virtues" of a product may become factors of competitiveness in environmentally conscious consumer markets. Examples can be found in the pulp and paper sector. It is not ruled out that at times standards may be "abused" to strengthen market positions. Some of these issues are further elaborated in the next section as well as in section E on
eco-labelling.

39. With regard to (c), countries with high domestic standards often enjoy a competitive edge in EGS.[10] Thus, while more stringent environmental standards and regulation may have some

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intimately linked with the incremental and long-term process of capacity building, involving the formation of skills and the building of institutional and firm-level capacities. Thus, it can be argued that any imposition of standards which does not take into account the long-term nature of this process would mean to penalize low levels of technological development.

9 Paragraph 2.22(e).

10 There is a large and growing market exist for "Environmental Goods and Services" (EGS), to a large extent as a result of more stringent environmental standards. Although only a small portion of demand for EGS results in international trade, this fraction represents nevertheless a significant amount of trade.

adverse effect the competitiveness of firms which have to comply with them, other sectors, in particular suppliers of EGS may gain.

40. In some cases developing countries may successfully compete in the market for EGS. Since new markets for EGS are emerging in the developing countries there may be opportunities for increased south-south trade, in particular in technologies which are appropriate in the context of the environmental and developmental conditions in the recipient developing countries.

41. With regard to (d), discussions on the competitiveness effects of environmental regulations in the Uruguay Round negotiations have focused on the issue of government assistance for compliance with environmental regulations. In the Uruguay Round Agreement on Subsidies and Countervailing measures, some environmental subsidies are exempted from the general rule that "specific", i.e. not generally available subsidies, are "actionable": Assistance to firms to promote adaption of existing facilities to new environmental requirements imposed by law and/or regulations and which result in greater constraints and financial burden, are "non-actionable", provided that certain conditions are met.

42. Further analysis on how current rules on subsidies impact on developing countries is needed. It is important to examine whether and under what conditions the special conditions and development needs of the developing countries would require increased exemptions. It may also be useful to examine whether other subsidies which eliminate external costs or capture environmental benefits could be appropriate.

43. Analysis and debate in UNCTAD indicate that while PPM-related standards are essential instruments of environmental policy, trade measures which seek to impose certain PPM standards on other countries are inappropriate from both a trade and an environmental point of view. It is also apparent that developing countries must build up an adequate framework of environmental rules and regulations which can be effectively enforced, in order to encourage the switch to environmentally more friendly processes and technologies (and the orientation of technology transfers towards more environmentally sound technologies). Its implementation might require careful adjustment so as to incorporate different levels of technological and socio-economic development and take into account the uniqueness of each country.

44. UNCTAD's work therefore focuses on analysis and conceptual work aimed at encouraging alternative measures to support developing countries attempting to internalize costs and improve PPM-related standards, taking into account that environmental and developmental conditions may differ across countries. In general, efforts by developing countries to internalize external costs (including through more stringent PPM standards) should be encouraged by open markets, facilitation of technology transfer and financial and technical assistance.[11] Specific measures could consist of the promotion of trading opportunities for "environmentally friendly" products and cooperation in the areas of eco-labelling and product certification.

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[11] Vossenaar R and V. Jha, op. cit.

**Harmonization of standards**

45. An important policy issue is whether harmonization of environmental standards can help achieve environmental objectives and/or avoid trade distortions. Harmonization of product standards and regulations provides advantages from a trade and transparency point of view.

46. However, uniform standards may not be optimum from an environmental point of view. The Uruguay Round Technical Barriers to Trade Agreement recognizes that, subject to certain conditions, no country should be prevented from taking measures at the level it considers appropriate, including those which are necessary for the protection of the environment.

47. It thus follows that a balance has to be struck between the advantages of harmonization, from a trade and transparency point of view, with the advantages, from an environmental point of view, of allowing legitimate differences in national standards. In general, it would seem natural to prefer harmonization when no good reasons for differences exist or where differences in standards may cause trade distortions.

48. Harmonization of PPM-related standards may be more complicated. While it is recognized that it is desirable to move towards higher process standards, the harmonization of process standards would not be required where the processes in question have no transborder or global environmental effects. Moreover, standards may be more efficient and easier to enforce when they reflect the environmental and developmental conditions to which they apply.[12]

49. Harmonization of standards may be useful to address global environmental problems. However, countries nevertheless have different responsibilities for a number of environmental problems. On the basis of equity, therefore, a case can be made that developing countries should receive transfers of funds and technology to enable them to implement internationally agreed-upon environmental objectives.

50. A certain harmonization of policies and approaches may nevertheless be possible. For example, the adoption of reasonable environmental standards and the wider adoption of the approach that the polluter should, in principle, bear the cost of pollution, would help to avoid trade frictions over "hidden" environmental subsidies and "eco-dumping".[13]

51. It is sometimes mentioned that while harmonization of standards might be encouraged where

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[12] In this context, the Polluter Pays Principle, adopted by the OECD, while recommending harmonization, recognizes that "differing national environmental standards, for example with regard to the tolerable amount of pollution, are justified by a variety of factors including, among other things, different pollution assimilative capacities of the environment in the present state, different social objectives and priorities attached to environmental protection and different degrees of industrialization and pollution density." See: OECD (1972), Recommendation of the Council on Guiding Principles Concerning International Aspects of Environmental Policies (Annex, paragraph 6).

[13] See Repetto R., Trade and Environment Policies, Achieving Complementarities and Avoiding Conflicts, Washington, July 1993.

the same environmental and economic conditions prevail, at times voluntary minimum standards could be useful in other cases.[14] There are, for example, minimum standards related to CFCs under the Montreal Protocol; there are also minimum standards related to parts per million of NOx or SO2 or other air pollution. In addition there are codes of conduct, which represent accepted minimum standards for emissions.

52. Minimum standards could be linked with positive measures such as the transfer of finance, technology, and general environmental support. A case in point is the Montreal Protocol, where special and differential treatment was accorded to developing countries and a Multilateral Fund was established to meet the financial and technological requirements of developing countries in order to encourage them to meet targets.

## B. Emerging environment-related policies with a potential impact on trade

53. Recent developments in environmental policies in a number of countries are putting increased emphasis on product policies. The main purpose of "product policies" is to encourage producers, retailers and consumers to reduce the environmental impacts of products.

54. Such policies are implemented in many ways. Among the instruments being used are standards and regulations, economic instruments, voluntary agreements or covenants, liability arrangements and the dissemination of information regarding environmental impacts.

55. One important aspect of such policies is that they tend to be based on voluntary measures for which international trade rules (including with regard to transparency and corresponding notification provisions) are not well established. Another aspect is that they tend to focus on a variety of characteristics regarding the "environmental quality" of products some of which have hitherto received less attention in standard-setting and policy-making.

56. Traditional product standards refer typically to specific product characteristics, such as toxicity or pesticide residues, which focus on environmental impacts during consumption, and to the protection of public health.[15] Newly emerging product policies focus on a larger variety of environmental impacts: the "environmental quality" attributed to a product depends on such factors as raw material intensity, energy efficiency, ability for reusability, recyclability, etc. For example, in the area of waste management the two principal purposes of product-oriented policies are (i) reduction of waste at the source and (ii) recycling and re-use. Waste can be reduced at the source by redesigning a product in order to use less material and thus to reduce the amount of waste of a disposed product or to increase its durability and reparability in order to require less frequent replacement. On the other hand, recycling policies require not only the promotion of recyclability

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[14] Minimum standards could be determined at the national level in the framework of internationally-agreed guidelines.

[15] Compliance with such standards can normally be controlled by product testing.

of products (for example by encouraging the design of the product in such a way as to make it more suitable for recycling after disposal), but also the promotion of the use of recycled materials by improving the competitiveness of secondary raw materials versus primary raw materials. New forms of product standards require, for example, that products contain a minimum amount of recycled materials.

57. In addition, while product policies target the product (for example, consumer products, hazardous substances, pesticides, CFCs), attention is often given to environmental impacts at different stages of a product's life cycle, thus including environmental effects of materials used, PPMs and disposal.

58. There are numerous problems involved in a life-cycle analysis (LCA). In the first place, it is difficult to determine what constitutes a product's life cycle. The LCA needs a large amount of information, which is often difficult to obtain and/or unreliable, in particular when international trade is involved, i.e. when environmental impacts relate to upstream environmental impacts in producing countries. In addition, it is difficult to weigh one environmental impact (e.g. energy consumption) against other impacts (e.g. ozone depletion). In practice, the LCA therefore often concentrates on a few critical dimensions of a product's environmental impact such as energy consumption, material intensity or emission of ozone depleting or toxic substances. The values assigned to environmental impacts are thus the result of a subjective and political process. It is consequently difficult to determine what is an "environmentally friendly" product.

59. A key element of product policies is the provision of information on environmental impacts. Obviously producers and consumers need information for their efforts to reduce environmental impacts. In addition, to the extent that purchasing decisions are influenced by information on environmental impacts, the need to provide such information by itself may induce producers to improve the environmental quality of a product for reasons of competitiveness.

60. Providing information on environmental impacts may be difficult and involve costs, in particular at the initial stage. For example, research on environmental impacts may be needed and certification systems may have to be set up. Information requirements thus may have impacts on competitiveness. The collection of reliable information on upstream environmental impacts, for example those related to PPMs, may be difficult, in particular with regard to PPMs used in another country. At times information-based instruments may thus discriminate de facto against imported products.

61. Other measures are emerging. For example, take-back obligations are intended to provide incentives to producers both to reduce waste generation at source and to use materials which are suitable for reuse or recycling, in order to facilitate compliance with legal obligations reduce the associated costs. However, since such obligations apply to both domestically-produced and imported products, they obviously have potential impacts on international trade.

62. New and innovative policies may be required to reduce the adverse environmental impacts of products and to change unsustainable forms of consumption in the developed countries. This has been recognized in Chapter 4 of Agenda 21. However, such policies may have an impact on international competitiveness, for example because of differences between environmental and developmental conditions between producing and consumer countries.

63. In some cases such policies may have unintended trade, and even environmental effects on trading partners. For instance, provisions requiring that products or packaging materials must be suitable for reuse or recycling may in some cases represent a barrier, if not a de facto exclusion of certain materials. And in some cases, materials used by developing countries may be affected, not so much because they are environmentally less friendly, but because the importing country may not have the facility to recycle them.

64. Where life-cycle analysis is used, certain PPM-related aspects may be focused upon in response to environmental conditions and priorities in the importing country, which may, however, be irrelevant or inappropriate for exporters in the producing countries (the sections on the expansion of trading opportunities for "environmentally friendly" products and eco-labelling elaborate on this point).

65. The above mentioned developments need further analysis. UNCTAD is undertaking analysis on emerging trends in the above-mentioned areas, in particular with regard to eco-labelling, environmental certification and recycling. It must be noted that TDB, through paragraph 3(c) of conclusions 407(XL), agreed that increased attention needs to be paid in UNCTAD to environmentally motivated policy instruments with an impact on trade, such as those with regard to packaging, labelling and recycling. The purpose of such analysis is to increase the understanding of the impacts of newly emerging environmentally-based product policies on developing countries and to help in identifying ways to mitigate negative impacts, if any, for example by identifying areas where strengthened international cooperation, including through increased coherence and transparency of national policies, may be needed.

**C. Internalization of external costs**

66. It is widely agreed that it is desirable to internalize externalities; this is seen as a key to reconciling environmental and trade policies. The Rio Declaration on Environment and Development states in Principle 16 that "national authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the costs of pollution, with due regard to the public interest and without distorting international trade and investment".

67. "Internalization of externalities" does not mean that pollution has to be reduced to zero. A certain level of pollution may be unavoidable. One approach is to determine an acceptable level of environmental protection or a certain target for pollution reduction or environmental improvement. These targets could then be translated into policy measures, aimed at institutional reforms (such as the establishment of property rights or the establishment of liability for environmental damages); improving the functioning of markets; or creating markets where they are non-existent.

68. One complicating factor is the perceived effect of internalisation on potential competitiveness, particularly for producers in developing countries. The evidence on whether or not, if internalisation is in fact undertaken, there will be sufficient gains in efficiency of production to offset the additional internalised costs, is at present mixed.

69. The ability of developing countries to internalize environmental costs will be strongly influenced by the conditions under which they are able to export their products. As recognized in Agenda 21, in order to support sound environmental policies in developing countries, international

cooperation is needed to remove trade distortions, improve commodity prices and the terms of trade of developing countries, reduce indebtedness and increase financial assistance.

70. Developing countries have been less successful than developed ones in ensuring that export prices reflect environmental costs and resource values. To the extent that environmental costs are reflected in the prices that developing countries must pay for their imports, developing-country consumers bear at least part of the environmental protection costs in other countries. However, if environmental costs in developing countries are not incorporated in the prices of their exports, such costs continue to be borne entirely domestically, largely in the form of damage to human health, property and ecosystems. In this context, internalizing environmental costs could bring additional benefits to developing countries. Assuming that the demand for their natural-resource-based exports is price-inelastic, if most developing countries included the costs of environmental protection in their exports, then consumers in the industrialized world would be paying a larger share of the environmental costs associated with their consumption patterns.[16]

71. Trade can contribute to the internalization of external costs in developing countries by providing them with the means needed to finance environmental improvements. In addition trade can make direct contributions to cost internalization.

72. Furthermore, trade contributes to the diffusion of environmental standards. For example, the environmental requirements of large overseas markets provide developing countries with important incentives to improve product standards and regulations in their domestic markets. Trade liberalization in both developed and developing countries will facilitate the diffusion of environmentally beneficial goods and services and contribute to the transfer of environmentally sound technologies and environmental management skills to developing countries.

73. Work undertaken in UNCTAD on internalisation shows that the feasibility of internalising environmental externalities depends on the strategy adopted for its implementation. Attenuating or eliminating policy distorting resource allocations; implementing revenue generating internalisation mechanisms (using revenues to increase knowledge and reinforce institutional capacity); and subsequently introducing other economic instruments could form useful strategies. This approach also requires the careful use of sectoral and macroeconomic policies to ensure, in particular, that distorting subsidies be removed especially from the agricultural sector.

74. Further, the right policy mix of internalisation instruments should take account of their (i) environmental effectiveness; (ii) efficiency in achieving the environmental objectives; (iii) impact on equity; (iv) political acceptability and; (v) flexibility in adapting to changes. Assistance may need to be given to developing countries in order to provide them with the necessary new capital equipment and skills needed for the adoption of less environmentally damaging techniques than currently in use.

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[16] Robert Repetto from the World Resources Institute has observed that if, for example, environmental costs averaged roughly 2 per cent of production costs, as they do in the United States, then US$ 500 billion in annual exports from developing countries would include payments of up to $10 billion by importers, mostly in the industrialized countries to help defray the costs of environmental protection. See Repetto R., op. cit.

75. Intergovernmental deliberations on internalization of external costs have been initiated in UNCTAD (TDB, April 1994) on the basis of a report prepared by the UNCTAD secretariat (TD/B/40(2)/6, 7 February 1994).

76. Future work on internalisation could give special attention to the sustainable production of commodities. Sustainable practices for the production of internationally traded commodities may require innovative forms of cooperation between producers and consumers. These issues are under active consideration in the UNCTAD secretariat.

**D. The expansion of trading opportunities for "environmentally friendly" products**

77. Expanding the trading opportunities of developing countries in the light of environmental concerns may require mitigating the adverse effects (if any) of environmental regulations, policies and standards on their exports, as well as actively seeking new market opportunities for example through the promotion of "environmentally friendly" products. While the first issue, viz mitigating the adverse impacts of environmental regulations and standards have been discussed in the preceding sections, this section will deal with mechanisms by which developing countries can actively seek new market opportunities for their environmentally friendly products.

78. Surveys indicate that consumer interest in the environmental attributes of products is on the rise, and that at least a segment of the population in some of the OECD countries is willing to pay a premium for environmentally sound products. Under certain conditions "green consumerism" can yield commercial as well as environmental benefits to developing countries.

79. International support for the expansion of trading opportunities for environmentally friendly products could be granted in several ways. Information and analysis on market trends is an essential requirement. Technical assistance and financial cooperation are also important. Options are being explored for granting special trade preferences to "green" products.

80. An important question is whether and under what conditions the expansion of trading opportunities for "environmentally friendly" products could provide incentives to developing country producers to introduce environmental improvements. Such environmental improvements may require additional capital outlays. Often technology switching results in reduced running costs, for example as a result of savings in the use of energy or materials. In such cases, exports could help firms to recover the incremental costs of technology switching through economies of scale effects. In other cases, however, running costs incurred in the use of "environmentally sound" technologies may be similar or higher compared to the old technique. In such cases, technology switching may be profitable only if some kind of "environmental premiums" can be obtained. Environmental premiums are more likely to be available in environmentally conscious consumer markets in the OECD area than in the home markets of developing country producers. Thus, the most promising way to capture environmental premiums is through increased exports to OECD countries.

81. UNCTAD's Committee on Commodities is examining issues related to improving the competitiveness of natural products with environmental advantages, and the Ad Hoc Working Group for the Expansion of Trading Opportunities for Developing Countries is studying the expansion of trading opportunities for "environmentally friendly" products. The Working Group has emphasized the need for technical assistance, in particular with a view to disseminating information and analysis to developing countries. Such assistance could be provided *inter alia* through international institutions such as UNCTAD and ITC.

82. UNCTAD, in cooperation with UNEP and other international institutions, is analyzing ways and means to facilitate the certification of "environmentally friendly" products from developing countries.[17] Unless a specific type of product is inherently "environmentally friendly", information on environmental impacts must obviously be provided. To the extent that the environmental friendliness is related to product characteristics (e.g. when a product is "environmentally friendly" because it can be easily disposed of, is energy efficient or has been produced from waste materials), providing such information may be a relatively simple process.

83. However, to the extent that the environmental friendliness of a product is PPM-related, certifying that a product is "environmentally friendly" may be more complicated. In the first place, certification will have to be based on information provided by producers or by testing agencies in the developing countries themselves. The challenge is thus to develop a system of certification that encourages developing country producers to undertake environmental improvements while at the same time ensuring the credibility and acceptance of certified products in consumer markets. In the second place, in the case of intrinsically local environmental problems, the desired environmental improvements depend on local environmental conditions and priorities in the producing countries. Since environmental priorities in developing countries may be different from those of consumers in the OECD countries, the promotional aspects of using environmentally friendly PPMs may be limited.

84. International cooperation on eco-labelling and certification may be useful to meet this challenge. In principle, the establishment of internationally-agreed guidelines for environmental certification and the mutual recognition of national systems may be possible. A number of possible options in the framework of eco-labelling programmes are mentioned below.

**E. Cooperation in the area of eco-labelling**

85. The purpose of eco-labelling is to promote the consumption and production of environmentally more "friendly" products by providing consumers with information on environmental impacts, in principle based on life-cycle analysis.

86. Chapter IV of Agenda 21 acknowledges the potential contribution that eco-labelling can make to encouraging changes in unsustainable consumption patterns. Paragraph 4.20 recognizes that "the recent emergence of a more environmentally conscious consumer public, combined with increased interest on the part of some industries in providing environmentally sound consumer products, is a significant development that should be encouraged". And paragraph 4.21 encourages the expansion of "environmental labelling and other environmentally-related product information programmes designed to assist consumers to make informed choices".

87. Despite being voluntary (there are no mandatory regulations involving banning of

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[17] A proposal was made by the Secretary-General of UNCTAD, in an informal high-level session on trade and environment co-hosted by the Executive Director of UNEP and the Secretary-General of UNCTAD in Geneva, 17 February 1994.

non-complying products), eco-labelling programmes may also have an impact on international competitiveness and sometimes act as an obstacle to trade.[18] In addition, the emergence of a large number of national eco-labelling schemes could also affect foreign producers, in particular small-scale exporters who will face difficulties in adjusting to the requirements of different markets.

88. Concerns have also been expressed that criteria and thresholds designed in eco-labelling programmes on the basis of environmental conditions and priorities in consumer countries do not always take account of the potential environmental improvements in the producing countries. In this context, the TDB concluded that "eco-labelling programmes should, to the extent possible, take into account the trade and sustainable development interests of producing countries, particularly developing countries and countries in transition. International cooperation on, and further study of, such programmes is required." This would in particular be important if PPM related criteria were to be used.

89. UNCTAD's research has shown that certain PPM-related criteria being designed in the light of environmental conditions and priorities in the importing country, may be irrelevant or inappropriate for exporters in the producing countries.[19] In such cases, producers in developing countries either may find it difficult to qualify for the label or may be induced to make adjustments which do not contribute to significant environmental improvements. Thus it is worth considering whether for specific process-related criteria and thresholds, the eco-labelling authorities could accept as equivalent, PPMs which are environmentally friendly to the domestic environment of the producing country.

90. Developing countries could develop their own eco-labelling programmes and seek consumer acceptance in the major markets or mutual recognition with programmes used in the OECD countries. UNCTAD, in coordination with other international institutions, is actively seeking to contribute, through analysis and intergovernmental debate, to greater cooperation in the area of eco-labelling, including on schemes which promote the mutual recognition of labels.

91. Future work on ecolabelling should outline mechanisms by which the interests and concerns of developing countries can be reflected in the formulation of internationally accepted guidelines for the establishment of ecolabels.[20] Mechanisms for facilitating the participation of developing countries in fora where environmental labelling procedures are being discussed, such as ISO, should also be explored. There is a need to encourage greater harmonization and mutual recognition of national schemes.

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[18] IDRC is funding a project on "Ecolabelling and International Trade.

[19] Jha, V. and S. Zarrilli, "Eco-labelling initiatives as potential barriers to trade. A viewpoint from developing countries". Paper prepared for the Informal Experts Workshop on Life Cycle Management and Trade. OECD, Paris, July 20-21, 1993.

[20] UNCTAD will hold a workshop under the IDRC funded project on "Ecolabelling and International Trade" from 27 to 29 June 1994 in Geneva.

## IV. CONCLUSIONS

92. The large interest of national governments, Non-Governmental Organizations (NGOs) and international institutions in developing and implementing an environment/trade and development agenda may provide an important impetus for moving towards greater integration of policies. However such integration should go beyond trade and environment concerns and be based on the concept of sustainable development. The CSD may wish to ensure that the development problematique is placed at the centre of the trade and environment agenda.

93. In the first place, such an agenda should be based on the commitments of UNCED as expressed in Agenda 21 and the Rio Declaration. Thus, issues relating to trade and environment linkages need to be put into the broader context of coordinated and coherent policies to achieve sustainable development: as recognized in Agenda 21, sustainable development policies in developing countries and countries in transition need to be supported by open markets, additional finance and the facilitation of the transfer of environmentally sound technologies.

94. The previous analysis has indicated that sustainable development requires both avoiding the adverse impacts, if any, of environmental policies on trade and development of developing countries as well as positive measures aimed at promoting trade and sustainable policies in developing countries. Integrating trade, environment and development requires that the fullest possible account is taken of the special conditions and development needs of the developing countries. This refers both to regulations as well as to voluntary measures since both may have impacts on competitiveness. The role of voluntary measures, particularly in the context of newly emerging environmental policies as illustrated in section III deserves special attention.

95. In certain cases greater coherence and coordination of national policies is needed to ensure that environmental impacts are not transferred from one country to another. In order to avoid unintended effects on trade, in particular on the exports of developing countries, increased transparency may be required. And measures aimed at encouraging more sustainable patterns of production, in particular those affecting products of export interest to developing countries, should as far as possible reward environmental improvements which are most needed in the producing countries. Thus, in particular in the case of process-related instruments, there is also a need to ensure that the fullest possible attention is given to the specific environmental and developmental conditions of the producing countries. This can be achieved by associating developing countries with the policy-making process.

96. A number of positive measures have been enumerated, such as technology transfer and financial and technical assistance. Eco-labelling and environmental certification, pursued at a multilateral level, may also be a viable alternative to trade restrictions and can constitute an instrument which can help developing countries to capture the rents associated with environmental concerns in the industrialized countries. At the same time such measures will enable developing countries to upgrade their environmental standards.

97. UNCTAD's research on ecolabelling has shown that a process of multilateral consultations is needed to ensure that advantage is taken of the potential promotional aspects of eco-labelling and environmental certification in order to help in achieving environmental improvements which are needed in the producing countries, in particular in the case of processes. Analytical work is needed in developing the concept of "equivalencies" in environmental improvements, which take into account

the specific environmental and technological conditions in the producing country. Internationally based labels or the mutual recognition of labels could also be an effective means to make trade and sustainable development mutually supportive.

98. Financial assistance and the facilitation of the transfer of ESTs will assist developing countries in upgrading standards and in moving towards greater internalization of external costs. It should be noted that the need for the international community to provide funds for the so-called "incremental costs of technology switching" to address global environmental problems has already been recognized: Some international financial mechanisms exist to assist in the funding of measures to deal with global environmental problems, such as the Global Environmental Facility and the Multilateral Fund under the Montreal Protocol. However, there are no comparable international mechanisms for the facilitation of transfer of Environmentally Sound Technologies (ESTs) appropriate for local environmental problems. In such areas as poverty alleviation, where the issues are simultaneously of an environmental and developmental nature, the transfers of ESTs requires facilitating mechanisms. International sources of financing are needed to help overcome the fixed costs of installing ESTs.[21]

99. Green consumerism in the OECD countries could help developing countries to upgrade both product and process. In some cases environmental premiums can provide a means to recover the higher costs of producing a product in an environmentally friendly way, compared to the old technique. Options may be explored for granting trade preferences to "green" products.

100. The design of policy conclusions and guidelines must be preceded by adequate analysis. Also, all interested countries must be afforded full opportunity to participate in the deliberations in the relevant international fora and to prepare themselves adequately.

101. In its coordinating role, the CSD may wish to ensure that the work programmes of the various United Nations bodies working in the environment/trade and development area, in particular UNCTAD, UNEP and GATT/WTO, are adequately articulated and complementary. As regards UNCTAD, from intergovernmental discussions in UNCTAD as well as the preceding discussion it follows that UNCTAD's contribution to the implementation of an environment/trade and development agenda could focus on a number of issues, some of which are detailed below:

- The impact of environmental policies, standards and regulations on market access and export competitiveness, in particular of developing countries and countries in transition;

- The impact of policies aimed at moving towards more sustainable patterns of consumption and production in the developed countries on trade and sustainable development of developing countries. This includes an analysis of newly emerging environmental policies in areas such as eco-labelling and recycling on export competitiveness;

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21 UNCTAD and the Government of Norway, Report of the Workshop on the Transfer and Development of Environmentally Sound Technologies, Oslo, 13 to 15 October 1993.

- Consideration of the special conditions and development needs of developing countries;

- The effects of further trade liberalization (including the reduction of tariff escalation and selected non-tariff measures) and improved functioning of commodity markets on sustainable development;

- The internalization of external costs;

- Ways and means to ensure that eco-labelling and certification programmes take account to the fullest possible extent of the trade and sustainable development interests of the producers, in particular from developing countries and countries in transition. This involves an examination of options for promoting multilateral consultations, in particular in the design of criteria for products of special export interest to developing countries. Conceptual work on issues such as "equivalencies" in environmental improvements; international guidelines for eco-labelling and environmental certification; and mutual recognition of national eco-labels and environmental certification and verification procedures is being undertaken jointly with UNEP and in consultation with other international institutions, such as ISO;

- Expansion of trading opportunities of "environmentally friendly" products from developing countries;

- Other positive measures for making trade and environment mutually supportive in the pursuit of sustainable development, including through the facilitation of transfer of technology, technical cooperation and other measures;

- Encouragement and provision of technical assistance, aimed at increasing awareness and understanding of the complex linkages between trade, environment and development; capacity-building for dealing with the interface between trade and environment policies at the national level; and supporting the participation of developing countries in international deliberations on trade, environment and development. Annex I and II contain a detailed description of ongoing technical cooperation activities and cooperation with UNDP and UNEP in this area.

## ANNEX I: UNCED FOLLOW-UP ACTIVITIES IN UNCTAD

102. The United Nations Conference on Environment and Development (UNCED) recognized that "UNCTAD should play an important role in the implementation of Agenda 21... taking into account the interrelationships between development, international trade and the environment" (Chapter 38 paragraph 26). Chapter 2 of Agenda 21 on "International policies to accelerate sustainable development in developing countries and related domestic policies", in particular paragraphs 2.21 and 2.22, included UNCTAD among the international organizations called upon to address a number of issues in the area of trade and environment.

103. The description of UNCTAD's role in the field of trade and environment has been sharpened by the Trade and Development Board (TDB) and endorsed by the General Assembly as follows:

> ***"UNCTAD's special role in the trade and environment field lies in policy analysis and debate, conceptual work, the building of consensus among member States on the interaction between environmental and trade policies, the dissemination of information to policy-makers and the encouragement and provision of assistance in capacity-building. Particular attention should be given to the problems and special circumstances of the developing countries, including the least-developed among them. Attention should also be given to the countries in transition".***[22]

### A. Organization of work at the intergovernmental level

104. Member states have agreed on UNCED follow-up activities in UNCTAD. With this purpose, the TDB, at the first part of its 39th session, adopted a report on its specific plans for the implementation of Agenda 21, which was submitted to the General Assembly through the Commission on Sustainable Development and the Economic and Social Council.[23] UNCTAD's work programmes were presented around six sectors, as follows:

- Agenda 21 and trade;
- Agenda 21 and commodities;
- Agenda 21 and technology;
- Agenda 21 and services;
- Agenda 21 and poverty; and
- Agenda 21 and privatisation.

#### 1. The Trade and Development Board

105. The work programme of UNCTAD's intergovernmental bodies is carried out by the Board and its various subsidiary bodies. The TDB decided to organise its own deliberations on sustainable development as follows: (a) taking into account the importance of the theme "trade and environment" a topic under this theme is considered at the first part of each of its annual sessions; and (b) another theme or themes on sustainable development is considered at the second part of each of its annual sessions.

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[22] Paragraph 3(a) of Conclusion 407(XL).

[23] TDB Decision 402(XXXIX) on Sustainable Development of 20 March 1993.

**Trade and environment**

106. With regard to trade and environment the Trade and Development Board decided to give consideration to the following areas as elements of its substantive intergovernmental work programme on trade-related aspects of sustainable development:

- Trends in the field of trade and environment within the framework of international cooperation;

- The reconciliation of environmental and trade policies, including the necessity to ensure that environmental measures do not become an instrument of protection;

- Analysis of the impact of environment-related regulations and standards on export competitiveness, particularly of developing countries;

- Building of increased awareness and understanding of the interlinkages between trade, environment and development;

- Consideration of the special conditions and development needs of developing countries;

- Collection, analysis and dissemination of environmental regulations and measures which may have an impact on trade, especially that of developing countries;

- Comparative analysis of country experiences with ways and means of promoting trade expansion and diversification without deteriorating or depleting the natural resource base (with special focus on export competitiveness);

107. The Trade and Development Board initiated its work programme on trade and environment at the first part of its fortieth session with deliberations on the issue "Trends in field of trade and environment within the framework of international cooperation". The discussions were supported by a report prepared by the UNCTAD secretariat[24] and the contributions of a panel of experts. The Board decided to consider the theme "The impact of environment-related policies on export competitiveness and market access" at the first part of its forty-first session.

**Other themes on sustainable development**

108. The TDB, at the second part of its fortieth session (April 1994) will consider the theme "The

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24 TD/B/40(1)/6.

effects of the internalization of external costs on sustainable development".[25]

**2. The Ad Hoc Working Group on the Expansion of Trading Opportunities for Developing Countries**

109. In December 1992, the Ad Hoc Working Group on the Expansion of Trading Opportunities for Developing Countries decided as one of the elements of its work programme to "consider the impact of environmental policies and measures on trading opportunities of developing countries with a view to making recommendations for enhancing those opportunities". The Group initiated its discussions on environmental measures and trading opportunities at its second session.

**3. Standing Committee on Commodities**

110. The Standing Committee included the following areas in its work programme on fostering sustainable development in the commodity field:[26]

1. Analysis of national experiences in the management of natural resources with regard to commodity production;

2. Exploration of the links between commodity policies, use and management of natural resources and sustainable development;

3. Identification of environmental problems that are specific to commodity production and processing and an examination of ways of improving developing countries' access to international financial and technical support, including environmentally sound technologies to cope with such problems;

4. Identification of means by which the competitiveness of natural products with environmental advantages could be improved; and

5. Examination of the manner in which prices of natural commodities and their synthetic competitors could reflect environmental costs.

**B. Other follow-up activities in UNCTAD.**

**1. Policy-oriented studies**

111. Policy analysis and debate as well as conceptual work are required for the better understanding of trade and environment linkages. Paragraph 2.22(a) of Agenda 21 calls upon UNCTAD and other institutions to "elaborate adequate studies for the better understanding of the

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[25] The discussions will be aided by report TD/B/40(2)/6 prepared by the secretariat, as well as a panel of experts.

[26] UNCTAD, Trade and Development Board, TD/B/CN.1/8

relationship between trade and environment for the promotion of sustainable development". UNCTAD has developed a broad programme of policy-oriented research. Reports on specific topics, some of which have been indicated above, are prepared to aid the discussions at the intergovernmental level. Other studies are being prepared, funded by extra-budgetary resources, covering a range of topics.[27] A number of such studies are undertaken in cooperation with UNDP and UNEP (see section V below).

**2. Dissemination of information**

112. In accordance with its role as defined above, UNCTAD is providing information to policy makers, through studies, information briefings, workshops and seminars. These activities are being coordinated with other relevant international institutions.

113. The Ad Hoc Working Group on Trading Opportunities for Developing Countries has recalled the importance of technical assistance, *inter alia* with a view to providing information on environmental regulations to developing countries. In this context, the Working Group stressed the important, and complementary, roles of UNCTAD and ITC in providing technical assistance on trade and environment related matters.

114. Paragraph 2.15 of Agenda 21 called upon UNCTAD to continue to collect appropriate information. UNCTAD is adjusting its Trade Control Measures Database to incorporate environmental measures which may have an impact on trade. The secretariat has benefitted from information provided by member states.

115. The secretariat is also developing **GREENTRADE**, which is a computerized information system that allows encoding and retrieval of information on environmental product concerns and measures, using a Personal Computer. A pilot version of the system, as well as a user's manual, have been prepared.

**3. Technical assistance**

116. UNCTAD, in cooperation with UNDP and UNEP is providing technical assistance to developing countries to help create awareness and understanding of the complex linkages between trade, environment and development, to assist in building institutional capacities for moving towards integration of trade and environmental policies at the national level, and to support the participation of developing countries in international deliberations on trade and environment.

117. UNCTAD is implementing a project on Ecolabelling and trade, which is funded by the International Development Research Centre (IDRC) in Canada. The purpose of this project is to help developing countries to examine under what conditions they may benefit from eco-labelling and under what conditions ecolabelling can act as a barrier to trade.

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[27] Among the donors are the Governments of Italy, the Netherlands and Norway, UNDP, UNEP, the International Institute for Sustainable Development (IISD) and the International Development Research Centre (IDRC).

118. A training course on trade and environment is being developed with the financial support of the Government of Luxembourg and other donors, as part of UNCTAD's **TRAINFORTRADE** programme. A pilot version was delivered in a workshop in Kuala Lumpur from 8-12 November 1993, hosted by the Malaysian Chamber of Commerce. A second course was held in New Delhi, hosted by the Indian Institute for Foreign Trade (IIFT), from 24-25 January 1994. A Pre-conference Training Seminar on Trade and Environment in Small Island Developing States will be held in Barbados on 19-22 April 1994. This seminar precedes the Global Conference on the Sustainable Development of small Island Developing States. UNEP is contributing to further improvement of the package as well as to the organization of workshops. A seminar will be held in Nairobi, hosted by UNEP, for African countries (11-15 July 1994).

119. Further information in other technical assistance activities is provided in paragraphs 112-115 above and paras. 121-125 (UNDP) and 126-128 (UNEP), below.

## ANNEX II: COOPERATION WITH OTHER INTERNATIONAL ORGANIZATIONS

120. UNCTAD's activities on trade and environment at both the intergovernmental and secretariat levels are being carried out in consultation with, and taking into account work already available in GATT, OECD, UNEP, FAO and other international institutions. Experience has demonstrated the complementarity of UNCTAD's work with these institutions, with whom active collaboration has been established. UNCTAD participates as observer in the GATT Working Group on Environmental Measures and International Trade (EMIT), the GATT Trade and Development Committee (CTD), and in the OECD Joint Session of Trade and Environment Experts.[28]

### A. Cooperation with UNDP

121. UNCTAD and UNDP are jointly undertaking a number of activities as a follow-up to UNCED. The aim is to increase the understanding of the complex linkages between trade, environment and development through policy oriented studies; to contribute to building institutional capacity in developing countries and countries in transition to deal with the trade and environment interface; and to support the effective participation of these countries in deliberations in the relevant international institutions. The ultimate purpose is to contribute to making trade and environment policies mutually supportive in the pursuit of sustainable development.

122. One important component of the broad programme of activities that has been designed consists of country-specific case studies on the interactions between trade and environment policies, involving government institutions and national research institutes in developing countries and countries in transition (project INT/92/207). The following countries are participating in the project: Brazil, Cameroon, China, Colombia, Costa Rica, Egypt, India, Jamaica, Malaysia, Nigeria, the Philippines, Poland, Senegal, Uganda, Thailand, Turkey, Vietnam and Zimbabwe.

123. As mentioned above paragraph 2.22 of Agenda 21 called upon UNCTAD and other relevant international institutions to "(a) elaborate adequate studies for the better understanding of the relationships between trade and environment for the promotion of sustainable development". The same paragraph further pointed to the need to "(b) promote a dialogue between the trade, environment and development communities". The country-specific studies, and the dissemination of their results to different groups within each country, contribute to such dialogue at the national level. UNCTAD and UNDP, in cooperation with national governments, have organized a number of regional workshops and national seminars to assist in this process. The results of the programme are also reported to the TDB and other relevant intergovernmental bodies.

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[28] UNCTAD, "Report of the Trade and Development Board of the first part of its fortieth session". For example, the TDB agreed that "The effects of the OECD procedural guidelines on integrating trade and environment policies and its future work programme need to be studied. Interaction between UNCTAD and OECD, as well as other intergovernmental organizations working in the field of trade and environment, such as GATT, should continue to be developed", Conclusions 407 (XL) TD/B/40(1)/14 (Vol.1)

124. In addition, studies, workshops, seminars and other activities are undertaken under "trade and environment" components of UNDP financed regional projects for Asia and the Pacific (Project RAS/92/034), and Latin America and the Caribbean (Project RLA/92/012), which are implemented by UNCTAD. For example, regional seminars on trade and environment were held for countries in Latin America and the Caribbean (Bogota, October 1993) and for South Asian countries (New Delhi, January 1994). UNCTAD and UNDP are also cooperating on "sustainable development and trade matters" in the context of a number of national (IPF) projects.

125. UNCTAD and UNDP are planning to establish a high-level advisory group to assist both organizations in implementing a "trade/environment and development agenda" in accordance with their respective mandates and areas of competence.

**B. Cooperation with UNEP**

126. UNCTAD and UNEP have established a close cooperation. The Executive Director of UNEP and the Secretary General of UNCTAD co-hosted a high-level meeting on "environment and trade: perspectives of developing countries", which was held in Geneva on 17 February 1994. As requested in that meeting, the two institutions are submitting a joint paper for this session of the CSD.

127. UNEP has joined UNCTAD in a number of country-specific studies on trade and environment linkages, complementing similar studies undertaken under the above mentioned cooperation arrangements between UNCTAD and UNDP.

128. UNEP is also contributing to a trade and environment course (see above). UNEP and UNCTAD will jointly organize a seminar on trade and environment for African countries, hosted by UNEP (July 1994).

**C. Cooperation with other international organisations**

129. UNCTAD has been assigned as the task manager for trade and environment at the recent meeting of the Inter-Agency Committee on Sustainable Development held in March 1994. The role of UNCTAD as the Task Manager on trade and environment includes: information exchange, inter-agency consultation, catalyzing joint activities and programmes, development of common strategies, and reporting on activities and progress; all of which will help define common UN system strategies for the implementation of Agenda 21 and identify areas for further action for consideration by the CSD.

## ANNEX III: CONCLUSIONS OF THE TDB ON TRADE AND ENVIRONMENT

Item 4. UNCTAD's contribution, within its mandate, to sustainable development: trade and environment

Conclusions 407 (XL): Sustainable development

1. In accordance with decision 402 (XXXIX) of the second part of the thirty-ninth session of the Trade and Development Board, the Board held an exchange of views on the linkages between trade and environment policies. Its discussion was aided and enriched by the excellent documentation prepared by the UNCTAD secretariat and the contributions of a panel of experts drawn from several regions.

2. The Board concluded that a broad convergence of views had emerged on the following elements:

(a) The complex linkages between trade and environment pose significant challenges to the pursuit of sustainable development and there has only recently developed an increased awareness of the importance of these linkages. The international community should strive for the broadest possible international coordination of environmental and trade policies through intergovernmental cooperation. Such cooperation should ensure transparency and coherence in making environmental and trade policies mutually supportive.

(b) An open, equitable, secure, non-discriminatory and predictable multilateral trading system that is consistent with the goals of sustainable development and leads to the optimal distribution of global production in accordance with comparative advantage is of benefit to all trading partners. Moreover, improved market access for developing countries' exports in conjunction with sound macroeconomic and environmental policies would have a positive environmental impact and therefore make an important contribution towards sustainable development.

(c) The successful conclusion of the Uruguay Round has the potential to contribute, through trade liberalization and clear-cut and effective multilateral rules and disciplines, to a more efficient allocation of national resources, thus encouraging sound economic growth, and thereby creating more resources for improving national environmental standards and minimizing waste and pollution.

(d) Environmental problems should so far as possible be resolved through appropriate macro-economic and environmental policies, rather than trade restrictions. In this respect, the importance of the unsustainable patterns of production and consumption, particularly in the industrialized countries, was emphasised, as was the link between poverty and environmental degradation and between the latter and access to less-polluting technologies. The efforts of individual countries to promote the internalization of externalities should be encouraged and given wide international support. The ability of developing countries to do so will, however, be strongly

influenced by the conditions under which they are able to export their products.

(e) Countries should seek to avoid the use of trade restrictions or distortions as a means to offset differences in cost arising from differences in environmental standards and regulations, since their application could lead to trade distortions and increase protectionist tendencies.

(f) As regards product standards, a balance should be struck between the advantages of harmonization, from a trade and transparency point of view, and the advantages, from the point of view of sustainable development, of allowing for differences in national standards. With respect to processes, strict process standards may have positive benefits for sustainable development by removing some of the hidden costs of environmentally unsound practices. The harmonization of process standards would not be required where the processes in question had no transborder or global environmental effects. :dt.

(g) Where harmonization is appropriate, standardization bodies such as the International Organization for Standardization (ISO) could provide useful forums in their areas of competence (e.g. eco-labelling, life-cycle analysis and eco-management). Where harmonization is inappropriate, mutual recognition of standards and/or the development of comparable standards could be considered.

3. The Board agreed that the following specific elements are of particular relevance for the further work of UNCTAD:

(a) UNCTAD's special role in the trade and environment field lies in policy analysis and debate, conceptual work, the building of consensus among member States on the interaction between environmental and trade policies, the dissemination of information to policy-makers and the encouragement and provision of assistance in capacity-building. Particular attention should be paid to the problems and special circumstances of the developing countries, including the least-developed among them. Attention should also be given to the countries in transition.

(b) Consumer preferences in many countries are turning towards "environmentally friendlier" products. Studies are required to assess, on the one hand, the economic costs associated with reducing the negative environmental effects of production processes and consumption, and on the other hand the market opportunities for exporters which may flow from the demand for such "friendly" products. The Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries will initiate such work at its forthcoming second session.

(c) Increased attention needs to be paid in UNCTAD to environmentally motivated policy instruments with a trade impact, such as those on packaging, labelling and recycling. To the greatest possible extent, the impact on trading partners, in particular exporters in developing countries and countries in transition, of such instruments should be considered at as early stages of their development as possible; transparency is a key element in this regard.

(d) Eco-labelling programmes should, to the extent possible, take into account the trade and sustainable development interests of producing countries, particularly developing countries and countries in transition. International cooperation on, and further study of, such programmes is required.

(e) The effects of the OECD procedural guidelines on integrating trade and environment policies and its future work programme need to be studied. Interaction between UNCTAD and OECD, as well as other intergovernmental and regional organizations working in the field of trade and environment, such as GATT, should continue to be developed.

(f) Development aid, especially technical assistance, is vital for the generation of adequate capacity to deal with the important and growing range of problems in the trade and environment field. The UNCTAD secretariat's technical assistance activities are proving to be highly useful to governments in this regard and should be pursued. Donor countries, other countries in a position to do so, and relevant multilateral agencies are therefore invited to increase significantly the funds made available for technical assistance in the field of trade and environment, particularly for the least-developed countries.

(g) Countries which have not yet done so should make increased efforts to reply promptly and completely to the UNCTAD secretariat's questionnaire on environmental measures which may have an impact on trade.

4. The Board recommends that:

(a) the Trade and Development Board consider at the second part of its fortieth session the theme: "The effect of the internalization of external costs on sustainable development";

(b) without prejudice to subsequent decisions taken in the context of the review and evaluation of the work programmes of the intergovernmental machinery to be held in 1994, the Trade and Development Board consider at the first part of its forty-first session the theme: "The impact of environment- related policies on export competitiveness and market access".

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